

## Message Text

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ORIGIN EA-09

INFO OCT-01 ISO-00 EB-07 SS-15 NSC-05 CAB-02 CIAE-00  
COME-00 DODE-00 DOTE-00 INR-07 NSAE-00 EPG-02  
FAA-00 L-03 SSO-00 INRE-00 NSCE-00 /051 R

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-----045313 230048Z /20

O R 230019Z JUL 77  
FM SECSTATE WASHDC  
TO AMEMBASSY BANGKOK IMMEDIATE  
AMEMBASSY WELLINGTON  
AMCONSUL SYDNEY  
INFO AMEMBASSY CANBERRA

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BANGKOK PLEASE PASS DEPUTY SECRETARY CHRISTOPHER

E.O. 11652:N/A

TAGS: EAIR, NZ, AS

SUBJECT: SOUTH PACIFIC CIVIL AVIATION DECISION  
REF: STATE 170375

1. THE PRESIDENT APPROVED THE CIVIL AERONAUTICS BOARD'S  
RECOMMENDATION THAT CONTINENTAL AIR LINES BE AWARDED  
ROUTES TO AUSTRALIA, NEW ZEALAND AND THE SOUTH PACIFIC  
ON JULY 21. AUSTRALIAN AND NEW ZEALAND OFFICIALS WILL  
PROBABLY RAISE THIS DECISION IN THE DEPUTY SECRETARY  
CHRISTOPHER'S BILATERALS. THE FOLLOWING ARE TALKING  
POINTS FOR SUCH BILATERALS.

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2. KEY ISSUES - CONTINENTAL AIRLINES ROUTE AWARD.  
ON JULY 21 THE PRESIDENT APPROVED A CAB RECOMMENDATION  
THAT CONTINENTAL AIR LINES BE AWARDED A LOS ANGELES-  
HONOLULU-AMERICAN SAMOA-FIJI-NEW ZEALAND-AUSTRALIA  
ROUTE. THIS AWARD RESULTED FROM THE CAB'S SOUTH PACIFIC  
SERVICE HEARINGS OF 1976. CONTINENTAL WILL JOIN PAN  
AMERICAN IN PROVIDING US FLAG CARRIER SERVICE TO THE

REGION. FOREIGN CARRIERS ARE QANTAS, AIR NEW ZEALAND, UTA (FRANCE), AND CP AIR (CANADA).

3. US OBJECTIVES - BOTH CIVIL AVIATION AGREEMENTS WITH

AUSTRALIA AND NEW ZEALAND PERMIT THE US TO DESIGNATE MORE THAN ONE CARRIER TO SERVICE THESE MARKETS. HOWEVER AUSTRALIA AND NEW ZEALAND BELIEVE THE TRAFFIC CAN SUPPORT ONLY ONE CARRIER FROM EACH COUNTRY, AND MAY CALL FOR RENEGOTIATION OF THE AIR AGREEMENTS TO LIMIT US CARRIER ACCESS TO THE AUSTRALIAN-NEW ZEALAND MARKET. WE HOPE THAT AUSTRALIA AND NEW ZEALAND WILL ABIDE BY THE CURRENT AGREEMENTS AND PERMIT CONTINENTAL TO OPERATE THE ROUTE GRANTED BY THE CAB. CONTINENTAL HAS CONTENTED IT WILL BE ABLE TO EXPAND THE MARKET THROUGH INNOVATIVE SERVICE PATTERNS AND MARKETING INITIATIVES. IT SHOULD BE ALLOWED THE OPPORTUNITY TO DO SO.

4. AUSTRALIA/NEW ZEALAND OBJECTIVES - BOTH QANTAS AND AIR NEW ZEALAND ARE OWNED BY THEIR GOVERNMENTS. WHILE QANTAS WILL MAKE A PROFIT THIS YEAR, THE LAST FOUR YEARS HAVE BEEN YEARS OF FINANCIAL DIFFICULTY FOR THE AIRLINE WHICH HAS GREATLY TRUNCATED ITS ROUTE STRUCTURE. AIR NEW ZEALAND, WITH A NEW FLEET OF DC-10'S, HAS GREATLY EXPANDED ITS LOS ANGELES TO AUCKLAND SERVICE, WISHES TO FILL THE SEATS IT PROVIDES AND FACES STIFF COMPETITION LIMITED OFFICIAL USE

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FROM PAN AMERICAN 747 SP'S WHICH ARE THE ONLY PLANES CAPABLE OF FLYING NON-STOP TO CALIFORNIA. BOTH COUNTRIES PERCEIVE THEIR AIRLINES AS ALREADY FACING STBSTANTIAL COMPETITION FROM PAN AMERICAN AND THIRD COUNTRY CARRIERS IN THE SOUTH PACIFIC AND BELIEVE THE ADDITION OF CONTINENTAL TO BE ONE AIRLINE TOO MANY FOR THE MARKET. THEY WILL WISH TO RESTRICT ITS ACCESS AND MAY CALL FOR RENEGOTIATION OF CIVIL AVIATION AGREEMENTS.

5. ESSENTIAL FACTORS - IN 1969 AMERICAN AIRLINES WAS DESIGNATED BY THE US GOVERNMENT TO SERVICE AUSTRALIA, NEW ZEALAND AND THE SOUTH PACIFIC FROM HONOLULU AND DALLAS/ST LOUIS/CHICAGO/WASHINGTON/NEW YORK AND BOSTON. THE RATIONALE WAS THAT AMERICAN WOULD NOT COMPETE WITH PAN AMERICAN IN THAT IT WOULD OVERFLY THE WEST COAST AND PROVIDE THE FIRST ONE-CARRIER THROUGH SERVICE FROM EASTERN AND MID-WESTERN CITIES TO THE SOUTH PACIFIC. AUSTRALIA CALLED FOR RENEGOTIATION OF THE CIVIL AVIATION AGREEMENT WHEN AMERICAN WAS DESIGNATED. WE WERE FORCED TO AGREE TO PRESREENING CAPACITY/FREQUENCY INCREASES. IN 1974, AFTER LOSING IN EXCESS OF 30 MILLION DOLLARS ON THE ROUTE, AMERICAN AIRLINES WITHDREW FROM THE

MARKET. BOTH PAN AMERICAN AND QANTAS HAVE ALLEGED THAT THEIR REVENUE AND PROFITABILITY WERE SERIOUSLY IMPAIRED BY AMERICAN'S SERVICE TO THE SOUTH PACIFIC. AUSTRALIA AND NEW ZEALAND HAVE PREVIOUSLY PRESENTED AIDE MEMOIRES OPPOSING THE DESIGNATION OF CONTINENTAL, STATING THAT A SECOND U.S. AIRLINE WOULD AGAIN RESULT IN EXCESS CAPACITY ON THE ROUTE. THE AUSTRALIANS MAY AGAIN CALL FOR RENEGOTIATION OF OUR CIVIL AVIATION AGREEMENT.

6. POINTS TO BE MADE

-- THE VIEWS OF AUSTRALIA AND NEW ZEALAND REGARDING THE DESIGNATION OF CONTINENTAL WERE FULLY CONSIDERED BY THE PRESIDENT. IN MAKING HIS DECISION THE PRESIDENT DETERMINED THAT THE PUBLIC INTEREST RESTED WITH LIMITED OFFICIAL USE

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COMPETITIVE US AIRLINE SERVICE TO THE SOUTH PACIFIC AND THAT THE ECONOMIC FACTORS JUSTIFIED AN ADDITIONAL CARRIER.

-- CONTINENTAL HAS A REPUTATION FOR BEING AN INNOVATIVE AIRLINE WITH STRONG MARKET IDENTIFICATION IN THE INTERIOR SOUTH AND SOUTHWEST STATES WHICH ARE NOT CURRENTLY SERVICED BY A TRANSPACIFIC CARRIER. ITS US POINTS ARE NOT SIMILAR TO THOSE OF AMERICAN.

-- CONTINENTAL'S SERVICE PROPOSALS PROVIDE FOR DAILY SERVICE FROM THE MAINLAND US AND HONOLULU WITH THREE FLIGHTS TO AUCKLAND AND 4 TO SYDNEY PER WEEK. EACH FLIGHT WILL BE OPERATED BY DC 10'S AND WILL HAVE AN ENROUTE STOP IN EITHER PAGO PAGO OR NADI.

-- CONTINENTAL WILL OPERATE WITH DC 10 EQUIPMENT WHICH IS SMALLER THAN THE QANTAS 747. IT WILL OFFER FEWER FLIGHTS THAN EITHER QANTAS OR AIR NEW ZEALAND. EACH FLIGHT WILL MAKE AT LEAST TWO ENROUTE STOPS BETWEEN CALIFORNIA AND AUSTRALIA/NEW ZEALAND, IN ORDER TO PROVIDE BETTER SERVICE BETWEEN AMERICAN SAMOA AND THE US MAINLAND, A ROUTE CITED AS HAVING INADEQUATE AIR SERVICE. WITH SUCH RESTRICTIONS IN ITS OPERATING PLAN, CONTINENTAL SHOULD BE ABLE TO CREATE A SEPARATE AND IDENTIFIABLE MARKET TO THOSE PRESENTLY SERVICED BY PAN AMERICAN, AIR NEW ZEALAND OR QANTAS. VANCE

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